

# Economic Policy Review



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**The Premier Institutions for the Study of Economics – LSE**

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## Transparency and Economic Growth

Svetla Kostadinova

It is already obvious to everyone that the proposed amendments to the Law on Access to Public Information are illogical, irrational, truly disturbing, and must therefore not be passed. What is the issue in brief?

Since the year 2000, in Bulgaria there has been a Law on Access to Public Information (LAPI), which enables the citizens and all interested parties to have access to information provided by state bodies or regional administrations.

At present, if one requires such information, they have to, more or less, go through the following steps:

1. Fulfill a notice for access to information;
2. Send it to the appropriate body of power;
3. Receive a response within 14 days;

4. Pay a tax, defined by the Minister of Finance for the carrier of the information (floppy disk, CD, mail, etc.).

As a result of the proposed amendments, the situation will change in the following way:

1. One should decide which of two possible notices they should fulfill – Notice for access to information or Notice for reuse of information of the public sector. Since, practically, certain information is distributed in the public sector, every notice may provide grounds for being defined as a “second usage”, and the administration may require that all the notices be presented in this way.
2. The catch with the Notice for reuse of information is that **one has to prove interest** – a condition which will automatically limit the possibility for more than half of the firms and citizens. On the other hand, it is unclear who will be in charge of deciding and on the basis

of what criteria will be determined is there or isn't there interest present.

3. Receive response in a **20 day period**
4. Access that is presently allowed may be **denied to parts of certain documents**.
5. Pay a fee that must not be significantly higher than the costs of retrieving the information – since this detail may be understood differently by the various administrations, it is logical to foresee tax increases.

Without commenting on the violation of the basic right for access to information and the insolent way of introducing of the draft law to Parliament (without pre-discussion and analyses), we strive to present the possible consequences, if the amendments are to be voted. We have to point out that the information for the implementation of the LAPI is retrieved from the Ministry of State Administration and Administrative Reform and refers to 2005.

Since the cost-benefit analyses we implemented did not identify any benefits at all, we tried to calculate the possible costs.

#### Direct costs

- **Payment of higher taxes** – for the calculation of the costs we take as grounds the present amount of money gathered by these taxes, according to data from the National Statistical Institute. Since part of these notices for access to information are verbal, we calculated only the part of them being written. The common costs for higher taxes would be 60 000 lv.
- **Costs arising from the prolongation of the period for response** – the prolonged time period will most probably affect the activities of some of the private firms, which will fail to fulfill certain services within the time limits. For the calculation of the costs we take into consideration the number of all notices for access to information, posted by firms; then we suppose that at least half of them will manage to prove interest, and we calculate the amount of the lost total value as a consequence of the increased time for allowance of access to information. We think that the time lost will not affect most of the firms and

their activities, but we suppose that at least some of them will have to pay damages. Total amount of the damages will be 75 000 lv.

- **Costs for administration training** for provision of the new regulations – trainings cost money. According to our analysis, at least 1 person from each of the 400 state and regional bodies will have to be trained. If the training lasts one day – the total cost of this will be 12 000 lv.
- **Costs for going to court** while appealing the negation of access to information – since the administration will be granted more power and will exercise it as it deems appropriate, we suppose that the number of appeals will double. If we accept that the appeals will have to pass through at least 2 instances of the court, which includes – paying to lawyers, paying taxes to the court (equally for the part of the petitioner), and paying the salaries of the state jurists. We include also all of the costs for the court itself as well. The total sum amounts 50 000 lv.

And these are only some of the direct payments that will arise once the amendments are accepted. They tend to be insignificant though, compared to the estimation of the total effect on the economy from the lack of transparency and the lack of access to information.

#### Common effects to the economy

Increase in the expenditures covering the access to information leads to increase of the work of the government, increase in the costs of bargains, and decrease in common welfare.

The consequences of these effects need a more thorough estimation analysis. Nevertheless, some simple relativities should be bared in mind.

A review of the World Bank<sup>1</sup> from 2005 shows that:

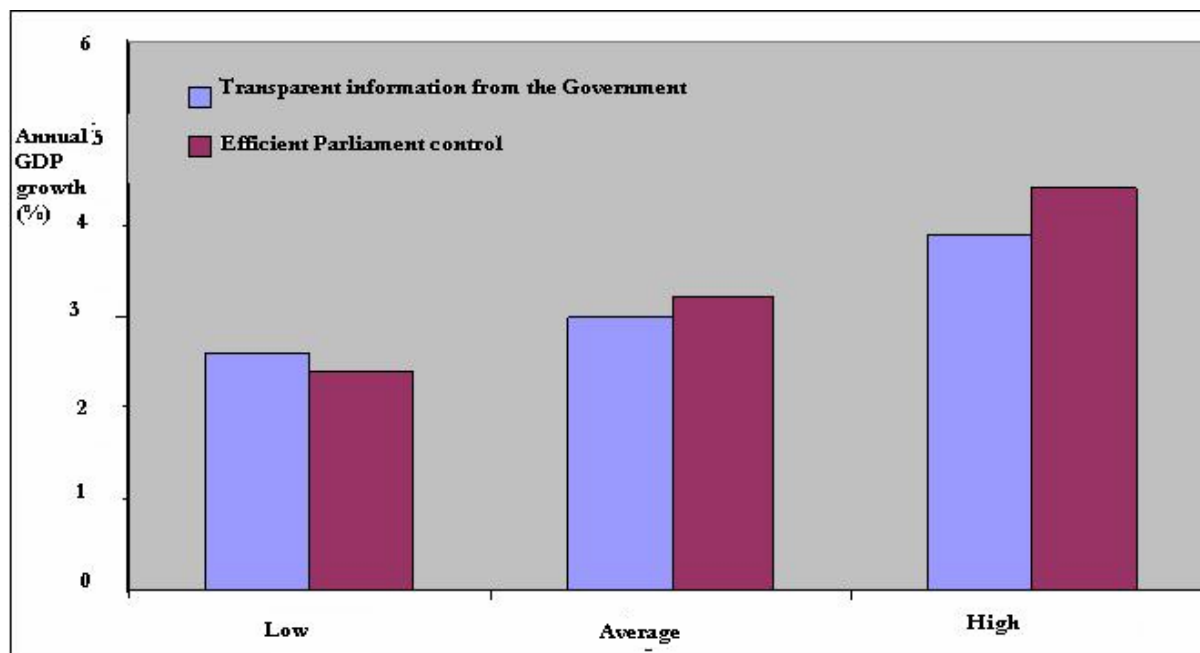
- o More transparent societies have more effective governments – the possibility of following closely the work of the

<sup>1</sup> "Transparency in Transparency" *Initial Empirics and Policy Applications*, Ana Bellver and Daniel Kaufmann, The World Bank, draft, September 2005.

administration is a reason for improvement of the provided services.

- The transparency influences positively the income per capita – the eased access to information means knowledge and awareness of government policies; there is predictability and the possibility for taking more informed decisions on the part of the economic subjects. This leads to increased effectiveness of the economy.

- The transparency also influences the competitiveness of the economy.
- The transparency also contributes to decreased levels of corruption
- The transparency also encourages investment – local and foreign investors are clear about government policies, and thus they may easily estimate the risks associated with investing in the Bulgarian economy.



An important conclusion from the review of the World Bank is that lower transparency leads to an average of 2% lower economic growth. For each economy this is of great importance. The

conclusion we draw is that the proposed amendments to the law will affect negatively both society and the economy, and they must therefore be rejected.

### Is the Bulgarian Economy Overheating?

Dimitar Chobanov

Recent analyses prepared by experts representing different institutions present their views of the economic situation in Bulgaria and comment on both the positive development and the existence of potential risks. Of such nature are the reports prepared by the World Bank, the International Monetary Fund, the European Commission, and different rating agencies. The main indicators attracting their attention are the increase of the deficit to the current account of the pay-balance, the inflation, the increase in crediting and the GDP. According to common

conclusions “overheating” of the economy is possible to occur, in which case there will be negative consequences to the economic agents in the country.

The situation in Latvia is similar, based on symptoms similar to those seen in the Bulgarian economy. A very fresh example is the attack against the fixed rate of the local currency to the euro, which was followed by certain rough moments that triggered the implementation of emergency measures by the Latvian government.

“Overheating of the economy”, as referred to in the abovementioned analyses, consists of the following. When the presented production capacity, comprising of capital, work and technologies, is insufficient to answer to the needs of the increasing demand, the

consequence is increase in price levels, in salaries, in employment and in the deficit of the current account. There are two possible ways out of this situation. The first is to decrease the inner demand by gradual “cooling” of the economy, and the second way is by sharp “cooling”, which could lead to unpleasant consequences. The latter may be combined with decrease in the level of trust of the local economies, outflow of capitals, decrease in the prices of assets and in economic growth. Similarly to the Latvian case, in this way the probability of appearance of a speculative attack against the fixed exchange rate may arise making way for a financial crisis to occur.

The approach is based on comparison between the potential production level that could be achieved with the available resources and technologies and its actual level. This requires availability of data on the economics, which are still insufficient in quantity and quality, to allow the drawing of scientifically based estimates. Notwithstanding the fact that today the institutions use contemporary models, the results, on the basis of which they draw conclusions for the current situation of the economy, depend too much on probabilities, which disorientate them from the reality.

The above-mentioned indicators do not show such development yet. One of the main symptoms for the “overheating” of the economy was the rapid increase in the prices of goods and services. The officially estimated inflation in Bulgaria for 2006 is 7.3% average annually, which is above the average level for the period after the introduction of the monetary fund (5.8%). A key factor to the increase of inflation in most of the cases is the more rapid increase in the supply of money than the increase in the demand for money. Along with this, though, some other factors apply their forces, changing the relative price levels and affecting their common level. Such are the increased excise taxes on alcohol, petrol and petrol products, and tobacco products, which come as a result of the implemented government policies in relation to Bulgaria’s accession to the EU. Moreover, some administratively managed prices were increased in 2006. To sum up, the governmental policy contributes for one half of the increase in prices. Namely, the influence of the “market” factors is visible through smooth increase in the price level, which should not make room for any uneasiness.

The next indicator related directly to the price levels is the increase of salaries. According to the data provided by the National Statistics Institute, they have increased on average by 9.5% for 2006, estimated on the basis of the figures for 2005, which means that they have maintained their moderate rate. The actual increase in the estimation of inflation according to the index of consumer prices equals 2.1%. On the other hand, the increase in labor productivity is expected to be higher, meaning that sufficient pressure on the labour market cannot be exerted. Moreover the labour expenditures for the production of a single unit remain at the levels similar to those from 2005, which shows that the competitiveness of Bulgarian firms has been retained.

The development of the labour market is characterized by an upheaval of economic activity and creation of more jobs, mainly in the private sector. Employment is rising on average 4.4% annually mainly because of the decrease in number of the discouraged people. Nevertheless the coefficient of employment still remains low – 46.7%, indicating the existence of free labour resources. The index of unemployment marks on average a 9 % decrease annually , remaining close to the average values in the EU, but nevertheless still remaining high. On the whole we cannot draw the conclusion that pressure has been exerted on the labour market. The higher, in percents, increase of the salaries of qualified specialists is due to exact estimation of the difference between the labour productivity of the latter compared to the one of the rest of the employees, which shows that the Bulgarian economy is getting closer to the more developed economies in this aspect.

According to official data, the takings of the trade banks from the non-governmental sector have slowed down in 2006 to 24.6% (32.4% in 2005), while at the same time the increase of the takings from households has reached 30.6% (58.4% in 2005). This shows that the Bulgarian National Bank has successfully fulfilled its purposes of limiting the increase of crediting of the trade banks, but this happens on the account of increase in foreign crediting of Bulgarian enterprises. And crediting itself leads to increase in the inner demand; the inner demand leads to increase of the deficit to the current account of the pay-balance.

According to some rough data the latter amounts to 16% of the GDP, which for the part of most of the experts is a serious ground for concern.

Some 13% from the increase of the import is due to the increase of the demand of consumers goods, which is in generally viewed as increase of the demand on the whole, while some 2/3 of it is due to the increase in value of the imported sources and energy resources, the reason for which is the international price level of the latter. On the other hand, the matter of investment goods, which is viewed in the aspect of being positive for the economy, bringing modern technology able to increase productivity, continues to keep the level of 1/4 of total import, which indicates stable investment activity levels in the Bulgarian economy.

In general, the deficit of the current account displays the increase in the flow of capitals in the country, a result of the positive approach of the foreign investors and their anticipation of realization of profit in Bulgaria. The finance of the deficit happens usually through long-term means, such as direct investments. This results simultaneously in increase of the national debt on one hand and more possibilities for increase of demand in long-term period on the other.

This is the direction that the Bulgarian government should follow into conducting its policies – to encourage the demand. This could be achieved either by taking measures for the increase of the flexibility of the labour market, or by reforming of the judicial system, improvement of the working results in the public sector and in particular – of the state administration, improvement of the quality of education, and reduction of the tax burden. The purpose is that the state functions be limited, while the rest keep functioning properly and effectively in contribution to the activity of the private sector, not in its opposition. Thus, the concentration of physical and human capital will be promoted, which on a long-term scale means greater room for economic growth that doesn't leave room for doubt when it comes to its steadiness.

### **Bulgarian telecommunications sector**

*Regulatory issues, licensing and how it plays into the business side*

Veliko Dimitrov

I would not discuss the overall objectives of the Law on Telecommunications (LT) as stated in the exordium since they sound, as in many other normative acts, strongly in favor of creating and maintaining competition, establishing free market principles, proclaiming efficiency, etc. In fact, as in many other areas, this is not exactly the case and in many directions imposed regulations are hampering competition.

The main regulator is the Communications Regulation Commission. Its legal capacity and authority is as follows where highlighted in bold are those authorities, which I believe are most crucial (negatively) for the overall sector performance as well as each company's behaviour in particular:

- Carries out necessary actions related to the issuance of licenses, stipulated by law;

- Issues, amends, supplements, suspends, terminates and revokes individual licenses for carrying out telecommunication activities;
- Issues class licenses for telecommunication activities, registers and writes off their registration;
- **Works out and presents for adoption by the Council of Ministers draft normative acts stipulated by law** (it does not have necessarily a negative impact, however examining current constellation, I have to assert that certain provisions could not have a positive effect as a whole; however not at last, under the influence and the direction of legislating of EU politicians);
- **Studies the respective markets for the purpose of determining operators having significant market power (SMP operators);** market segmentation performed by the regulator does not reflect modern reality at all, which I will devote special attention further below;
- **Determines SMP operators and takes decisions regarding the imposing**

**them specific obligations stipulated by law;**

- **Assigns the provision of universal telecommunication service;**
- **Controls the principles of price formation stipulated by this law, i.e. of the SMP operators;**
- Controls as well the quality of the service and the requirements for providing universal telecommunication service according to the law;
- Various legal authorities related to the management of the radio frequency spectrum.

According to current legislation, there are two qualitatively different types of telecom operators: ordinary and those having “significant market power”.

By a motivated decision, the Commission determines that a public operator has a substantial impact on the market (SIM) when the operator possesses a share equal or larger than 25% of the respective telecom market with a territorial range determined by his license. The Commission may also determine that an operator has a SIM for a share less than 25% of the respective market based on:

- The ability of the operator to have an impact on the respective market (no matter how it is to be estimated, it is a mere market outcome unless the dominant position is created and maintained by the state, which means again regulation);
- The degree of impact of the operator on the accession devices to the end users (the respective infrastructure is finally either built up or acquired on own risk and responsibility);
- The access of the operator to financial resources and gathered experience (it is hardly to imagine that anybody could participate in the telecommunications sector without having relevant experience and furthermore access to financial resources).

First of all, each and every one operator could be theoretically defined having SMP following the broadly used definition and vague criteria as well as the virtually unlimited Commission’s authority, in taking that decision.

Second, such a division of market players into “good” and “bad” and subsequently imposing specific regulations to those having SMP (currently in Bulgaria in the fixed lines telephone services there is just one operator determined to possess SMP – “Bulgarian Telecommunication Company”) is basically wrong. Those specific regulations, which I would partially review below, are in a way burdensome and put players working under different conditions in one and the same market.

And third, as indicated, the criteria on which the decision may be based are by no means tangible, nor are they justifiable from the viewpoint of a functioning market and market principles, free competition and finally initiation of more investments.

#### Market segmentation

Currently, the legislation provides for a market segmentation, which no longer reflects the modern reality. Subdividing telephone services into fixed lines, mobile and to a certain extent the data transmission (given that there are various Internet-based platforms for voice transmission in real time like Skype) has lost its accuracy in recent days.

Separating market artificially allows the Commission’s easily and apparently rightful to determine SMP operators, i.e. to set specific regulations and control.

#### *Universal Telecommunication Service*

A universal telecommunication service is a service of a definite quality, submitted to every end user regardless of his geographic position, at an affordable price.

The UTS operator may request a compensation for proved net losses on condition that his share is fewer than 80% of the market of the fixed voice telephone service, i.e. the BTC is not eligible to be compensated according to how the Commission is currently estimating market shares.

*Specific, unbundled access to a subscriber line and rented lines*

The issue, whether there should be any regulated access to built infrastructure or not, had been yet on the agenda worldwide for many years.

**I surely could not agree with the obligation that a SMP operator should provide any sort of access to its infrastructure at prices and under conditions determined by the Commission.**

I base my argumentation merely on property rights and if you let me show you an example with a warehouse and conceivably how one could be forced to rent half of it at a price not negotiated by both sides, but imposed externally, it turns out to be more or less obvious. Of course, the scales of investments in telecommunications are greater, however this does not change the mere market logic. Moreover, as a result, the return on these investments should be certainly greater and this should not be impeded.

On the second place, while dealing with the issue, I think also of what great disincentives to investment such obligations could result in for all the other operators (given that they can always use any infrastructure they want).

**What major changes would set in (or not) after the adoption of the Law on electronic services (LES)<sup>2</sup>, which shall replace the present LT?**

- The overall state policy and involved government bodies remain the same;
- Licensing generally drops off; for operators using “limited resource” such as radio frequency spectrum and national numbering space there would be a registration procedure; this would probably be the only amendment that would influence the sector positively;
- The division between SMP operators and others remains;
- After studying “different” markets if there is “effective” competition, the Commission shall determine SMP

operators and impose them specific regulations;

According to a statement of the Secretary General of the Commission Mr. Ljubomir Stoitchkov delivered several months ago, the telecommunications sector should be subdivided into 18 (eighteen) distinct markets, each of them separately regulated. As already stated, the artificially division of the market is completely wrong and the adoption of the new law would impose additional burdens on the market players.

As a conclusion, I would like to say that discriminating market players could not ever be for the good either for them or for their customers.

<sup>2</sup> The full text can be downloaded at the following address:

<http://www.parliament.bg/?page=app&lng=bg&aid=4&action=show&lid=1634> (in Bulgarian)

## Global Index of Outsourcing Destinations for 2006

Metodi V. Metodiev

Last week, the official results of the annual index of the consulting company [A.T.Kearney](#), determining the most attractive destinations for conducting certain activities, also known as outsourcing (*outsourcing - Outside Resource Using*) was released. Conceptually defined, outsourcing is an instrument for the export of a certain activity specific to a company and its transfer for completion by another company. Briefly its purpose is to: 1) save some financial resources to the company; 2) increase the effectiveness of the work; 3) free company resources for the development of other activities.

The index is comprised of 50 countries, and it is compiled on the basis of 3 different indicators:

- **financial attractiveness** – includes sub-indicators such as average salary, prices of rents, electricity, telephony, tax burden, corruption, stability of the currency, etc.
- **qualification and availability of workers**
- **business environment** – reviews the macroeconomic and political situation of the country

The most desirable destinations for outsourcing for 2006 have been India and China – first and second in line respectively. Bulgaria is 9<sup>th</sup> and it is the only European country in the Top 10.

Table 1. 2006 Index of Outsourcing

1 <sup>st</sup> Pla ce	2 <sup>nd</sup> Pla ce	3 <sup>rd</sup> Pla ce	4 <sup>th</sup> Pla ce	5 <sup>th</sup> Pla ce	6 <sup>th</sup> Pla ce	7 <sup>th</sup> Pla ce	8 <sup>th</sup> Pla ce	9 <sup>th</sup> Pla ce	10 <sup>th</sup> Pla ce
India	China	Malaysia	Thailand	Brazil	Indonesia	Chile	Philippines	<b>Bulgaria</b>	Mexico

Source: Report of the consulting company "A.T.Kearney" ( the table shows the first 10 countries of all 50 included in the index).

One of the main reasons that certain countries are desirable outsourcing partners is that the costs for production of one unit of the good are lower compared to the rest of the alternative destinations for the transfer of such activities. But we must not review this indicator as an isolated determinant of the attractiveness of a country. As we already mentioned, the Index is comprised of many different sub-indicators, all of which are no less important than the cost of labor.

In the past few years, Bulgaria has been included in different studies of various global organizations, which follow and analyze the environment for business in many different regions of the world. In its methodology, the Index of Outsourcing is not much different than all other such studies. Viewing it on the level of numerous differentiated indicators, it is clear that the greatest weight is put on the so-called financial attractiveness indicator, followed by the qualification and availability of the workers, and lastly by the business environment indicator.

### What may be improved so that we become even more attractive to foreign business initiatives?

Following the chronology of the comprising elements of the index, we may distinguish a few main directions, in which Bulgaria has to introduce improvements urgently:

- **Tax burden** – lowering taxes will stimulate investments
- **Corruption** – this issue, inevitably, has to do with the transparency of the work of state institutions on one hand, and on the other – with the effectiveness of the judicial system
- **Employees' qualification** – a thorough reform of the higher education system. We need competitive universities, introduction of a voucher system,



development of programs and teaching,  
orientated to the needs of the business

- **Respect for the right to property and the freedom of contracting**

### **For those who do not pay social security - jail?**

Adriana Mladenova

Do people who don't pay the whole amount of their social security taxes deserve to go to prison? Just as much as they deserve to go to jail for preferring to go to a vacation or buy a home or a car for their kids, rather than give this money to a wealthy unknown firm that promises to build them a house. From an ethical point of view, this is the analogy of the proposal for imprisonment of those who don't pay their social security taxes that was being discussed in public last week. Here is, in brief, what the whole turmoil is about.

A debate, initiated by Minister Emilia Maslarova was held on Monday concerning the "problems and perspectives of the current pension system", in which present and former representatives of the Ministry of Labor and Social Policy, employers, and syndicates took part.

The following are the main topics of discussion released in front of the media:

- Lack of payment of social security taxes – more than 40 % of the employers, according to the figures of the Ministry of Labor and Social Policy, do not insure their employees on the full amount of their salary, and therefore they pay less social assurances than required;
- The deficit of the Pension Fund to the National Social Security Institute (NSSI) increases every year
- The dissatisfaction among pensioners increases equally because of the low pensions they receive. Some of them feel deprived from the introduction of the point system and they are of the opinion that this system is unfair because of the formula of the estimation of the pension rate.

The following are the measures that were discussed at the meeting:

- Enforcement of the control and the fines of the employers and the employees which hide income; the introduction of legal ways for searching personal responsibility rather than administratively fining the offenders according to the provisions of the Social Insurance Code
- Imprisonment for those who insure themselves on lower than the real income they receive
- Increase of the minimum of the social insurance for some of those who insure themselves – like dentists, lawyers, etc.
- Leveling of the pension age to 65 years for men and women or eventually – increase in that minimum – to 68 years.
- State employees to bare the social insurances made on account of the employees – at present all of the social insurances that are due to the state employees – like judges, policemen, military are being paid by the State budget.

These proposals are inadequate for the reality in Bulgaria though.

First, the sources of all problems must be defined clearly and the counter measures must be pointed out. The grey market along with the mass abuse of social security tax payments are just symptoms of a 'sick' pension system, which itself is a result of the wrong design of the whole compulsory state insurance scheme. The measures proposed at the meeting will only make the situation worse, they will increase the burden carried by the private sector and the employees, rather than create stimuli for all of them to pay their legally defined taxes and payments.

Why do the business and the employees not pay their social security taxes in full?

It is the answer to this question that we must find first, before starting to suggest counter measures. And the answer is more than obvious:

because people have lost confidence in the state pension system, they don't believe that the state is able to provide them security, namely the benefits that they are promised to receive in the future in return for their social security payments now. They feel these are lower than the alternative price taken from their income. For the working people, having more money now is more valuable than receiving a promise for a pension, which will not be formed on the basis of their personal contribution, but will be required on the basis of enforced solidarity (as absurd as this phrase may sound) of the future generations mixed with the policy of the state. And judging from the present condition of the pensioners – it will be insufficient for leading a normal life.

Under these circumstances it is understandable why people prefer to increase their net income, which they can use for the consumption of different goods, for savings or for investing in more profitable beginnings than putting their money into a doomed to failure system, which shows no symptoms of recovering or reforming. It is the personal interests and motivation who dictate the rational actions of market subjects, and the state machinery, as much as it may try, it may never change this regularity. The people are convinced that the state sectors are being robbed, that corruption is abundant, that the state enterprises are not profitable to a great extent, that the public resources are mismanaged, that the transparency on expenditure of tax received incomes is insufficient, and that the bureaucrats have grown resistant to changing and optimizing of their work, which for them would mean only cutting jobs. Hence, should people who prefer to keep their money, for the education of their children, for taking care of their parents, for investing and so on, be subject to imprisonment? Which of the mentioned above is a crime? It is true that laws are created to be binding to all, but when laws themselves are truly unbearable and do not guarantee security, it is more than certain that people will not abide by them. Therefore, the mass tax hiding results not from the spoiled morality of employers and employees, but from a profoundly mistaken social security tax system.

Secondly, it is important to realize that even if social security taxes were paid by the state employees, it would not result in reducing of the

Pension Fund deficit, because even at present, the taxes of those employed in the state sector are being covered by the state budget and transferred to the budget of the NSSI and the Pension fund (in fact, it doesn't matter who pays the social security taxes – the deficit of the fund will remain unchanged and present).

On the whole, there will be certain benefits for the state budget if the idea of state employees paying social security taxes on their own is realized (amounting to a couple of million leva) under the condition that their pre-tax salaries remain unchanged. This, in figures, means reduction in their net income with some 30% per month. Such a measure is extremely discouraging for every employee, on the one hand, and on the other – it is extremely unpopular, and it is hard to believe that there are politicians who would be willing to take such a step. Not to mention that the possible fiscal effects from such a measure would not be great. The budget surplus only for January 2007 amounts to some 103 million leva, which shows that there is enough income to the budget to cover the state's common expenditures, but those who are defined as "pensions" are not enough.

The second possible way for transferring such a burden of all employees to the state employed employees is if their pre-tax salaries are increased in order for their net income to remain the same. Since the salaries of the state employed are covered by the taxpayers in the private sector, such a move would only mean re-allocation of resources, which brings along with itself extra administrative and transactional costs, but no benefits. The reform in the state administration that would actually lead to some positive results is one that would lead to its effectiveness and optimization through decreased numbers of state employees. While the only way out for the pension system is its privatization and transformation via the introduction of individual accounts of the insured employees. (More on this topic is available on the internet site of the IME's Tax Bulletin – [“Can the social insurance be lower, and the pensions- higher?”](#) and the IME's web page on [arguments in favor of private pension system](#)).

### **The Premier Institutions for the Study of Economics –**

#### *The London School of Economics and Political Science<sup>3</sup>*

Momtchil Krastev

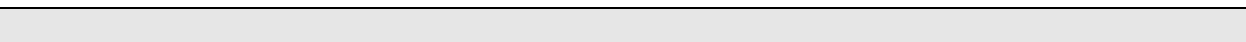
Ever since its founding in 1895, the London School of Economics and Political Science (or simply LSE) has been one of the big names of British higher education. In fact, the school's influence has gone far beyond the borders of the United Kingdom, and the LSE has established itself as perhaps the top institution for the study of the social sciences anywhere in the world. Only a handful of institutions can compare when it comes to the study of anthropology, economics, international relations, law, management, philosophy of science, political science, and sociology, among others. For its many accomplishments in these fields, the LSE is often compared to such fine schools as Oxford, Cambridge, Harvard, Yale, Columbia, and the University of Chicago.

It is certainly true that among LSE's students and faculty have been many notable individuals, including around 30 heads of state and 14 Nobel Prize winners. From academia, George Bernard Shaw, Bertrand Russell, Karl Popper, Harold Laski, Friedrich von Hayek, Michael Oakeshott, Imre Lakatos, and many other important thinkers have taught at the school. In the field of economics, in particular, some of the most important contributions to our understanding of the subject were made by theorists based at the LSE. In addition, many high-profile political figures (including over 40 of the current members of the House of Lords) both from the UK and abroad have been associated with the school, such as former U.S. President John F. Kennedy, former Federal Reserve Chairman Paul Volcker, and banker and philanthropist David Rockefeller. The list of notable faculty and alumni is indeed long.

But the London School of Economics does not rely on past glories, and it continues to strive for the highest standards of excellence. Indeed, various publications, taking into consideration the quality of teaching and research, among other factors, have placed LSE very high in their university rankings. In terms of research quality, the LSE has scored second in England, behind only Cambridge, its most prominent rival in the study of economics (as the famed Keynes-Hayek debates still shape the two major schools of economic thought today, as nations still debate the merits of the welfare state versus an economy solely controlled by the market). As it regards rankings of social science institutions, the LSE has scored second in the world, this time behind only Harvard. And to its high standards of both teaching and research have contributed not only its faculty but also its students, which, coming from over 150 countries, make the school easily the most international in the world.

An LSE education offers many advantages, including almost unrivaled access to academics and academic resources (i. e. the British Library of Political and Economic Science). The possibilities to create networks with high-caliber students as well as attend public lectures given by the likes of Bill Clinton, Nelson Mandela, Kofi Annan and many others are also present. The school's location in the very center of London and its links to government and the business make it especially attractive to students as well. But the ones, lucky enough to have been admitted (as for many courses the acceptance rate is below 10 per cent) and who have managed to complete a degree there, often discover the total value of an LSE education after they have left the school. It indeed serves many of them well, throughout their careers and lives, as the school's alumni continue to have a large impact on the field of economics and beyond.

<sup>3</sup> For detailed information on the LSE's history, influence, and notable alumni and faculty, see the following:  
<http://www.lse.ac.uk/informationAbout/aboutLSE/Default.htm>;  
[http://en.wikipedia.org/wiki/London\\_School\\_of\\_Economics](http://en.wikipedia.org/wiki/London_School_of_Economics)



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